

Alexander Dennis Limited

**Annual report and consolidated
financial statements**

31 December 2017

Registered number SC268016

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Strategic Report

The results of the year are set out in the profit and loss account on page 10.

Chief Executive's Review

The business achieved another solid financial performance in 2017 with profit before tax ahead of last year despite a marginally softer top line. This was caused by the UK returning to normalised demand levels after the “bumper” years in 2015 and 2016 that were due to the timing of regulatory compliance coupled with the delayed release of a number of anticipated international tenders. Despite these headwinds, our performance demonstrates the continuing resilience and strength of our business. We developed a number of new products, including the successful launch of our first fully electric single deck vehicle in the UK, opening up two new international markets with our double deck products and fully establishing our new manufacturing plant in the USA.

UK Market

We maintained our strong position in the UK in 2017, registering 1,163 new bus chassis, representing 45% of the market. Our UK vehicle sales whilst in line with our expectations were down on the previous year at £304 million (2016 - £356 million) as the market returned to normalised levels of demand. This fall was due to an exceptionally strong 2016 market as bus operators increased the purchase of new double deck vehicles to achieve compliance with the Disability Discrimination legislation. 2017 had no equivalent boost to demand.

With an increased focus on air quality and zero-emission vehicles in the UK we successfully launched our new fully electric Enviro200 single deck in collaboration with our Chinese partner, BYD. This product has quickly become market leader in the UK with nearly 200 vehicles delivered or on order. The launch of our fully electric Enviro400 double deck will follow on shortly demonstrating our commitment to this increasingly important segment of the market. With the New Routemaster supply contract also coming to an end this opened more of the London market to us in 2017.

International Markets

International vehicle sales were strong in 2017 increasing 11% to £207 million (2016 – £186 million). This was due to a record year for us in North America. Sales in the USA were at their strongest for a number of years and this increase in volume was produced at our new vehicle manufacturing facility in Indiana that we acquired at the end of 2016 to complement our existing facility in Toronto. This also allowed us to bring the marketing and production of our Enviro200 in-house from the previous Joint Venture arrangement and this product is now firmly part of the ADL family of products. During the year we also delivered our first ever vehicles into Mexico. This breakthrough order for 90 double deck buses were built in the UK using UK Export Finance to help underpin the transaction. We are looking at new opportunities in Latin America and this together with our strong well-established business in Canada and a significant product development plan for this region gives me confidence in achieving further growth.

Sales in the Asia Pacific region declined in 2017 due to lower volume from Hong Kong. A number of expected tenders in other Asia Pacific markets, particularly New Zealand, were also pushed back and these impacted sales in the year. This will however help us to deliver our strongest ever year in Asia Pacific in 2018. In Europe we delivered our first Enviro500 order with an initial sale to Switzerland and more significant orders for delivery in 2018. We are actively working on other tenders in Europe and despite the uncertainty of Brexit the region still presents further growth opportunities for us.

Strategic Report *(continued)*

Chief Executive's Review *(continued)*

Financial Performance

As already noted turnover in 2017 declined to £577 million (2016 - £601 million) however a focus on higher margin products and markets, continuing to improve our cost structure and reduced warranty and support costs saw our earnings increase. Earnings before interest taxation, depreciation and amortisation (EBITDA) increased to £40.8m (2016 – £39.1 million) representing an increase from 6.5% to 7.1% of sales. Profit before tax was £24.4 million (2016 - £23.7 million).

Cash generation continues to be a priority for us in particular reducing the level our working capital, although this is heavily influenced by the timing of contracts. We have made a number improvements, particularly in lowering our underlying stock levels and expect further benefits in 2018. This together with a lower level of capital expenditure ensured we delivered another solid cash performance with an operating cash flow of £10m (2016 - £23.2m) and net debt at year-end of £6.3m (2016 – £4.7m).

Outlook

In 2018 we expect to return to top line growth due to a number of strong international markets. There is however more short-term uncertainty in the UK, particularly with the larger provincial operators. I am excited about the new products we are currently developing over the next five years and remain confident in our ability to open up new markets. We will continue to focus on higher capacity, lower cost and more reliable products across all our main markets. Increasingly air quality and zero-emissions will play a bigger part of our development agenda.

We maintain our commitment to focus on the long-term and building a growing and sustainable enterprise, satisfying all customers and stakeholders in the process.

Summary of financial results

As set out in the profit and loss account on page 10, the group made an operating profit of £26.8 million (2016: £26.2 million) and a pre tax profit of £24.4 million on turnover of £577 million. (2016: £23.7 million on turnover of £601 million). Key financial highlights are set out below:

	2017 £million	2016 £million
Turnover	577.0	601.2
EBITDA	40.8	39.1
Depreciation/amortisation/gain on asset disposal	(13.3)	(12.1)
Non recurring costs	(0.7)	(0.8)
Operating profit	26.8	26.2

The principal risks and uncertainties affecting the business include the following:

- **Fluctuations in demand:** the Group monitors market information, sales prospects and orders on a regular basis to assist in anticipating future demand. Formal reviews are held on a monthly basis to ensure that we match this with our manufacturing capacity and supply chain commitments.
- **Raw material availability and prices:** the Group monitors raw material sources on a global basis and negotiates forward purchase contracts where appropriate with key suppliers. The business also seeks to reduce its risk from its supply base and every effort is made to dual source critical parts and components.
- **Foreign exchange risk:** a programme of regular monthly foreign exchange hedge contracts is undertaken to help mitigate the impact of fluctuations on our foreign currency purchases over a rolling two year period. All significant sales orders won in foreign currencies are hedged.

Strategic Report *(continued)*

Summary of financial results *(continued)*

- Interest rate risk: as part of the Group interest rate management strategy, the Group monitors market interest rates on a regular basis. Where appropriate interest rate swaps and caps are used to mitigate potential future interest rate increases.
- Environmental risks: the Group places considerable emphasis upon environmental considerations and seeks to ensure ongoing compliance with relevant legislation.
- Debtors: the Group maintains strong relationships with each of its key customers and has established credit control parameters. Appropriate credit terms are agreed with all customers and these are closely managed.
- Major disruption/disaster: the Group has a documented Business Continuity Plan with a supporting outline plan to deliver and is currently progressing to schedule.
- New product, project and technology risk: in recognising this as a key risk the business has a well established New Product Development Executive Group consisting of key technical and commercial personnel to monitor technology developments and oversee all new product development. This Group has an established formally documented process for managing our development.
- All appropriate measures are taken to protect the company's intellectual property rights and to minimise the risk of infringement of third party rights.
- The effect of legislation or other regulatory activities: the bus and coach industry, like many others, is subject to regulatory forces, particularly with regard to emission controls; the Group manages its exposure in this area with dedicated technical resource and active involvement in trade bodies.
- Litigation: the directors are not aware of any material litigation against the group at the present time.

Key areas of strategic development and performance of the business include:

- Sales and marketing: in line with the Group's strategy, key customer relationships are monitored and developed on a regular basis. In addition a key focus is broadening our customer base in the UK and developing targeted markets overseas.
- New product development: new products continue to be developed for both existing and prospective markets and further product developments are underway under the supervision of the New Product Development Group.
- Manufacturing: during the year labour efficiencies and productivity improvements have been realised and new initiatives for process and efficiency improvements are constantly being developed.
- Health and Safety: the Group has adopted a single Health & Safety policy and oversees co-ordination of activities and the sharing of best practice at a group level. However, in each facility, ADL has specific Health and Safety teams, producing regular reports that are scrutinised up to Executive level.

Key financial performance indicators include the monitoring of the management of profitability and working capital.

Key non-financial performance indicators include the monitoring of our employees' health and safety.

	2017	2016	Measure
Financial			
Operating profit (£million)	26.8	26.2	Earnings before interest and tax
Current ratio	1.08	1.26	Current assets: current liabilities
Stock turnover	6.3	7.0	Turnover/stock
Debtor days	32.0	25.8	Trade debtors/average turnover
Creditor days	64.9	50.6	Trade creditors/average purchases
Non-financial			
Number of reportable accidents	12	21	Reportable accidents

Strategic Report *(continued)*

Financing

The Group's business activities and current position as well as information on its cash flows and borrowings are contained within this report and the notes to the financial statements.

The core funding of the business is achieved through the use of both shareholders' funds and bank debt. The Group's existing bank facilities were committed until June 2018 and these were renewed with the incumbent banks through to December 2019 ('the revised facilities').

Our funding requirement can fluctuate over the course of a year, driven by our international activity as well as seasonal and other factors. We manage cash utilisation closely across each of our business units and on a consolidated basis. Rolling six-monthly cash forecasts are prepared every week and reviewed in detail. Cash forecasts beyond this period are updated and reviewed every month.

After taking into account the current order book, our best estimate of future market conditions, the underlying operational performance of the business and the level of unutilised committed bank facilities, the Group's most recent forecasts show that the Group will be able to operate within its facilities.

All banking covenants were satisfied during 2017 and are forecast to remain so for the revised facilities covered by the financial projections.

By order of the board



Colin Robertson
Chief Executive

16 Charlotte Square
Edinburgh
EH2 4DF

17 May 2018

Directors' Report

Principal activities

The business conducted by the Company and Group is bus body and chassis manufacture, coach body manufacture and the related aftermarket activities of spare parts provision and service support.

Results and dividends

The Group profit after interest and tax for the financial year amounts to £19,734,000 (2016: £19,764,000).

A dividend of £8,000,000 was approved and paid during the year ended 31 December 2017 (2016: £8,000,000).

Directors

The directors who held office during the year were as follows:

a. Non-Executive

David Harraghy	Investor Director
Steve Clayton	Non-Executive Director
David Giffin	Non-Executive Director

b. Executive

Colin Robertson	Chief Executive
Michael Stewart	Finance Director
Arthur Whiteside	Sales and Aftermarket Director

In accordance with the Articles of Association, the directors are not subject to retirement by rotation.

Employees

Applications for employment of disabled persons will always be considered, bearing in mind the aptitudes and abilities of the individual concerned. Where members of staff become disabled, every effort is made to ensure their continuing employment with the group, with appropriate training where necessary, in accordance with the Group policy, namely that training, career development and promotion prospects be identical to those of equivalent, non disabled employees.

It is Group policy to keep employees advised of the achievements and progress of the Group.

Political contributions

The Group made no political donations or incurred any political expenditure during the year (2016: £nil).

The Group made charitable donations amounting to £16,724 (2016: £3,820).

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Directors' Report *(continued)*

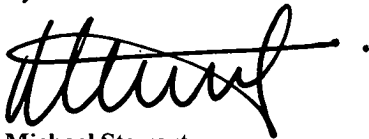
Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 1.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

A handwritten signature in black ink, appearing to read 'Michael Stewart', with a long horizontal stroke extending to the right.

Michael Stewart
Finance Director

16 Charlotte Square
Edinburgh
EH2 4DF

17 May 2018

Statement of directors' responsibilities in respect of the Annual Report, Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



KPMG LLP

319 St Vincent Street
Glasgow

G2 5AS

Independent auditor's report to the members of Alexander Dennis Limited

Opinion

We have audited the financial statements of Alexander Dennis Limited ("the company") for the year ended 31 December 2017 which comprise the Consolidated Profit and Loss Account and Other Comprehensive Income, the Group and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity and the Consolidated Cash Flow Statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Independent auditor's report to the members of Alexander Dennis Limited

(continued)

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Philip Charles
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

17 May 2018

Consolidated Profit and Loss Account and Other Comprehensive Income
for the year ended 31 December 2017

	<i>Note</i>	2017 Total £000	2016 Total £000
Turnover	3	577,007	601,240
Cost of sales		(487,111)	(512,837)
Gross profit		89,896	88,403
Distribution costs		(23,329)	(21,400)
Administrative expenses		(39,742)	(40,835)
Profit before depreciation, amortisation and non-recurring costs		40,795	39,144
Depreciation, amortisation and gain on asset disposals		(13,296)	(12,141)
Non recurring costs	4	(674)	(835)
Group operating profit		26,825	26,168
Other interest receivable and similar income	7	37	20
Interest payable and similar expenses	8	(2,442)	(2,456)
Profit before taxation		24,420	23,732
Tax on profit	9	(4,686)	(3,968)
Profit for the financial year		19,734	19,764
Other comprehensive income			
Foreign exchange differences on translation of foreign operations	24	1,697	(8,658)
Cash flow hedging	24	(11,550)	(5,084)
Taxation on hedging instruments	9, 24	1,778	1,420
Other comprehensive income for the year, net of tax		(8,075)	(12,322)
Total comprehensive income for the year		11,659	7,442

Balance Sheets

At 31 December 2017

	Note	Group		Company	
		2017 £000	2016 £000	2017 £000	2016 £000
Fixed assets					
Intangible assets	10	38,155	40,973	39,006	41,729
Tangible assets	11	20,049	17,154	16,547	14,480
Investments	12	-	-	1,957	1,935
		58,204	58,127	57,510	58,144
Current assets					
Stocks	14	91,058	85,902	81,878	78,483
Debtors	15	105,776	94,667	128,567	98,028
Debtors – due after more than one year	15	-	-	7,765	4,563
Other financial assets	13	2,898	14,309	3,308	16,995
Other financial assets – due after more than one year	13	1,299	4,825	1,299	5,629
Cash at bank and in hand	16	28,774	22,219	14,808	16,722
		229,805	221,922	237,625	220,420
Creditors: amounts falling due within one year	17	(211,945)	(175,492)	(175,184)	(129,016)
Net current assets		17,860	46,430	62,441	91,404
Total assets less current liabilities		76,064	104,557	119,951	149,548
Creditors: amounts falling due after more than one year	18	(2,020)	(30,581)	(51,819)	(77,233)
Provisions for liabilities					
Deferred tax liability	21	(131)	(2,570)	(1,776)	(5,761)
Warranty provision	22	(6,247)	(7,399)	(4,100)	(4,092)
		(8,398)	(40,550)	(57,695)	(87,086)
Net assets		67,666	64,007	62,256	62,462
Capital and reserves					
Called up share capital	24	170	170	170	170
Share premium account		16,911	16,911	16,911	16,911
Capital redemption reserve		1	1	1	1
Cash flow hedging reserve		(1,984)	7,788	(1,934)	10,016
Profit and loss account		52,568	39,137	47,108	35,364
Shareholders' funds		67,666	64,007	62,256	62,462

These financial statements were approved by the board of directors on 17 May 2018 and were signed on its behalf by:



Michael Stewart
Director

Company registered number: SC268016

Consolidated Statement of Changes in Equity

	Called up share capital £000	Share premium account £000	Capital redemption reserve £000	Cash flow hedging reserve £000	Profit & loss account £000	Total equity £000
Balance at 1 January 2016	170	16,911	1	11,452	36,031	64,565
Total comprehensive income for the period						
Profit or loss	-	-	-	-	19,764	19,764
Other comprehensive income (see note 24)	-	-	-	(3,664)	(8,658)	(12,322)
Total comprehensive income for the period	-	-	-	(3,664)	11,106	7,442
Dividends	-	-	-	-	(8,000)	(8,000)
Total contributions by and distributions to owners	-	-	-	-	(8,000)	(8,000)
Balance at 31 December 2016	170	16,911	1	7,788	39,137	64,007
	Called up share capital £000	Share premium account £000	Capital redemption reserve £000	Cash flow hedging reserve £000	Profit & loss account £000	Total equity £000
Balance at 1 January 2017	170	16,911	1	7,788	39,137	64,007
Total comprehensive income for the period						
Profit or loss	-	-	-	-	19,734	19,734
Other comprehensive income (see note 24)	-	-	-	(9,772)	1,697	(8,075)
Total comprehensive income for the period	-	-	-	(9,772)	21,431	11,659
Dividends	-	-	-	-	(8,000)	(8,000)
Total contributions by and distributions to owners	-	-	-	-	(8,000)	(8,000)
Balance at 31 December 2017	170	16,911	1	(1,984)	52,568	67,666

Company Statement of Changes in Equity

	Called up share capital £000	Share premium account £000	Capital redemption reserve £000	Cash flow hedging reserve £000	Profit & loss account £000	Total equity £000
Balance at 1 January 2016	170	16,911	1	11,684	21,718	50,484
Total comprehensive income for the period						
Profit or loss	-	-	-	-	20,950	20,950
Other comprehensive income (see note 24)	-	-	-	(1,668)	696	(972)
Total comprehensive income for the period	-	-	-	(1,668)	21,646	19,978
Dividends	-	-	-	-	(8,000)	(8,000)
Total contributions by and distributions to owners	-	-	-	-	(8,000)	(8,000)
Balance at 31 December 2016	170	16,911	1	10,016	35,364	62,462
	Called up share capital £000	Share premium account £000	Capital redemption reserve £000	Cash flow hedging reserve £000	Profit & loss account £000	Total equity £000
Balance at 1 January 2017	170	16,911	1	10,016	35,364	62,462
Total comprehensive income for the period						
Profit or loss	-	-	-	-	20,157	20,157
Other comprehensive income (see note 24)	-	-	-	(11,950)	(413)	(12,363)
Total comprehensive income for the period	-	-	-	(11,950)	19,744	7,794
Dividends paid	-	-	-	-	(8,000)	(8,000)
Total contributions by and distributions to owners	-	-	-	-	(8,000)	(8,000)
Balance at 31 December 2017	170	16,911	1	(1,934)	47,108	62,256

Consolidated Cash Flow Statement *for year ended 31 December 2017*

Cash flow statement	<i>Note</i>	2017 £000	2016 £000
Net cash from operating activities	32	10,047	23,212
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets		1,141	80
Proceeds from sale of intangible assets		-	-
Acquisition of tangible fixed assets		(6,549)	(6,323)
Acquisition of other intangible assets	10	(5,992)	(8,044)
Net cash from investing activities		(11,400)	(14,287)
Cash flows from financing activities			
Additional/(repayment) of borrowings		8,000	(20,000)
Payments to acquire derivative financial instruments		-	-
Payment of finance lease liabilities		(92)	(126)
Net cash from financing activities		7,908	(20,126)
Net decrease in cash and cash equivalents		6,555	(11,201)
Cash and cash equivalents at the start of the year		22,219	33,420
Cash and cash equivalents at the end of the year	16	28,774	22,219

Reconciliation of net cash flow to movement in net debt *for year ended 31 December 2017*

	<i>Note</i>	2017 £000	2016 £000
Increase/(decrease) in cash in the year		6,555	(11,201)
Cash (inflow)/outflow from movement in debt	31	(7,908)	20,126
Non cash movement	31	(248)	(246)
Decrease/(increase) in net debt in the year		(1,601)	8,679
Net debt at the start of the year	31	(4,691)	(13,370)
Net debt at the end of the year	31	(6,292)	(4,691)

Notes

(forming part of the financial statements)

1 Accounting policies

Alexander Dennis Limited (the “Company”) is a company limited by shares and incorporated and domiciled in the UK.

These Group and parent company financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (“FRS 102”) as issued in September 2015. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The parent company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included a second time;
- No separate parent company Cash Flow Statement with related notes is included;
- Key Management Personnel compensation has not been included a second time;
- Certain disclosures required by FRS 102.26 Share Based Payments; and,
- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

As set out in the strategic report, the group has agreed revised facilities through to December 2019. The group’s cash flow forecasts demonstrate there is sufficient headroom within the facilities and the related covenants for the foreseeable future. Hence the financial statements have been prepared on a going concern basis.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments classified at fair value through the profit or loss.

1.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2017. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In the parent financial statements, investments in subsidiaries are carried at cost less impairment.

Notes (continued)

1 Accounting policies (continued)

1.3 Foreign currency

Transactions in foreign currencies are translated to the Group company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account except for differences arising on the retranslation of qualifying cash flow hedges and items which are fair valued with changes taken to other comprehensive income, which are recognised in other comprehensive income.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised in other comprehensive income.

1.4 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in preference and ordinary shares

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognised in profit or loss or other comprehensive income. Other investments are measured at cost less impairment in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Notes (continued)

1 Accounting policies (continued)

1.5 Other financial instruments

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and
- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income (OCI). Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in OCI is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss. When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

1.6 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.16 below.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Notes (continued)

1 Accounting policies (continued)

1.6 Tangible fixed assets (continued)

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. Depreciation is recognised on the following bases:

Freehold buildings	2.8% straight line
Leasehold property/improvements	Over the lease term
Heavy plant and machinery	10% straight line
Light plant and machinery	20% straight line
Office equipment/fixtures	20% straight line
Computer equipment and software	33% straight line
Motor vehicles including demo vehicles	25% straight line

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

1.7 Business combinations

Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the entity.

At the acquisition date, the group recognises goodwill at the acquisition date as:

- the fair value of the consideration (excluding contingent consideration) transferred; plus
- estimated amount of contingent consideration (see below); plus
- the fair value of the equity instruments issued; plus
- directly attributable transaction costs; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities and contingent liabilities assumed.

FRS 102.35 grants certain exemptions from the full requirements of FRS 102 in the transition period. The Group elected not to restate business combinations that took place prior to 1 January 2014. In respect of acquisitions prior to 31 December 2014, goodwill is included on the basis of its deemed cost, which represents the amount recorded under old UK GAAP. Intangible assets previously included in goodwill, are not recognised separately.

1.8 Intangible assets and goodwill

Goodwill

Goodwill, representing the difference between the fair value of the consideration given and the fair value of the separable net assets acquired, is capitalised. Goodwill is amortised to nil by equal annual instalments over its estimated useful life, currently estimated by the directors at 20 years. Goodwill is tested for impairment in the first accounting period following each major acquisition and, thereafter, if conditions of potential impairment are deemed to exist.

Research and development – New Product Development

Where the directors are satisfied as to the technical, commercial and financial viability of individual new product development projects, the related identifiable development expenditure is capitalised as an intangible asset. This is then amortised over the period during which the Group is expected to benefit from such expenditure in the form of new product sales, but not so as to extend beyond a period of 7 years for buses and for coaches, commencing from initial product sale.

Where doubts subsequently arise over project viability, provision is made for impairment of the relevant costs incurred.

Notes (continued)

1 Accounting policies (continued)

1.8 Intangible assets and goodwill (continued)

Other intangible assets

Patents and trademark costs incurred by the Group are capitalised at cost and amortised over 20 years, as this is the expected useful life of the assets.

Amortisation

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- patents and trademarks 20 years
- capitalised development costs 3-7 years

Goodwill is amortised on a straight line basis over its useful life, which is estimated by the directors to be 20 years. Goodwill has no residual value.

The company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill and other intangible assets are tested for impairment in accordance with Section 27 Impairment of assets when there is an indication that goodwill or an intangible asset may be impaired.

1.9 Discontinued operations

Discontinued operations are components of the group that have been disposed of at the reporting date and previously represented a separate major line of business or geographical area of operation or were subsidiaries acquired exclusively with a view to resale.

They are included in the profit and loss account in a separate row for the current and comparative periods, including the gain or loss on sale or impairment loss on abandonment.

1.10 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost includes materials and direct labour and an attributable proportion of manufacturing overhead based upon the normal levels of activity.

Provision is made for obsolete, slow moving or defective items where appropriate.

1.11 Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes (continued)

1 Accounting policies (continued)

1.12 Employee benefits

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Termination benefits

Termination benefits are recognised as an expense when the entity is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the entity has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Share-based payment transactions

Share-based payment arrangements in which the entity receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the entity.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

1.13 Warranty provision

A provision for warranty is recognised in the balance sheet when the underlying products are entered into service. The provision is based upon historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Additionally, the group includes within its warranty provision amounts for field campaigns identified within the relevant vehicle park.

1.14 Turnover

Turnover represents revenue from the manufacture and sale of bus and coach chassis, bus and coach bodies, complete buses and coaches, bus kits and the provision of aftermarket services, including the sale of spare parts.

Turnover, excluding sales related taxes, is recognised when:

- a supply contract exists;
- sales consideration is capable of reliable measurement and collectability is reasonably assured;
- contractual commitments have been discharged.

Certain vehicle export sales contracts for the construction of a group of vehicles where the customer specifies the major structural elements of design, which extend beyond the balance sheet date and which are material to the overall results of the group are accounted for as long term contracts notwithstanding that the duration of the contract may be for less than one year.

Notes *(continued)*

1 **Accounting policies** *(continued)*

1.14 **Turnover** *(continued)*

The amount of profit attributable to the stage of completion of such contracts is recognised when the outcome of each contract can be foreseen with reasonable certainty. Turnover in relation to such contracts is stated at the value appropriate to their stage of completion plus attributable profit; provision is made for any losses as soon as they are foreseen. Such contracts are held in the balance sheet (classified as amounts recoverable on contracts) at cost incurred plus attributable profit, net of amounts transferred to the profit and loss account and after deducting payments on account. Where payments on account exceed the cumulative costs incurred plus attributable profit, the excess is shown under creditors falling due within one year.

Parts supply contracts

Certain parts supply contracts entered into in relation to the aftermarket division extend to several years in duration and therefore result in the group having parts supply commitments which extend beyond the balance sheet date. Income in relation to such contracts, however, may be received evenly over the duration of the relevant contracts. In these circumstances, income is deferred so as to match revenue with the relevant parts supply commitments to be incurred in later periods. Turnover deferred in relation to such contracts is shown under creditors falling due within one year.

1.15 **Grants**

Grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grant will be received.

Government grants relating to turnover are recognised as income over the period in which the related costs are incurred. Grants relating to an asset are recognised in income systematically over the assets expected useful life.

1.16 **Expenses**

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Notes (continued)

1 Accounting policies (continued)

1.17 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

2 Accounting estimates and judgements

Key sources of estimation uncertainty

Impairment of Group assets

The Group considers whether intangible assets and/or goodwill are impaired. Where an indication of impairment is identified, the estimation of recoverable value requires estimation of the recoverable value of the cash generating units (CGUs). This requires estimation of the future cash flows of the CGUs and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

Assessment of hedge effectiveness

The assessment of hedge effectiveness is in line with industry standards, and takes into consideration the estimated value of the hedged item at the time of hedging, and the actual value of the hedged item upon its completion. This requires estimation of future transactions, which can be impacted by both internal and external delays.

Forward exchange rates applied in determining fair value of derivative financial instruments

The forward exchange rates are based on those detailed by the provider of the derivative financial instrument. There is a level of uncertainty regarding the rates as they can fluctuate between sources.

Critical accounting judgements in applying the Group's accounting policies

Revenue recognition on long term contracts

The amount of profit attributable to the stage of completion of certain vehicle export sales contracts is recognised when the outcome of each contract can be foreseen with reasonable certainty. This requires a degree of judgement, however management have significant experience in both estimation of the stage of completion and the overall contract profitability.

Notes (continued)

2 Accounting estimates and judgements (continued)

Useful lives of intangible assets

The Group establishes a reliable estimate of the useful life of intangible assets and/or goodwill arising on business combinations. The estimate is based on a variety of factors such as the expected use of the acquired business and the expected useful life of the cash generating units (CGUs) to which the intangible assets and/or goodwill is attributed.

Warranty provision

The Group provides for warranty on all new bus and coaches sold and for any field campaigns identified to the warranty park. The provision is calculated based upon historical warranty data and on assessment by management of any issues identified. As such, a degree of estimation is required in this process.

3 Turnover

The business operates within four geographical markets: the United Kingdom, Europe, Middle East and Africa, Asia Pacific and the Americas. Turnover by geographical market is analysed below:

	2017 £000	2016 £000
United Kingdom	355,157	403,855
Europe, Middle East and Africa	4,768	984
Asia Pacific	101,860	148,043
Americas	115,222	48,358
Total turnover	577,007	601,240

No geographical analysis of turnover by origin or segmental analysis of turnover and profit before tax is provided as the directors believe the provision of such information would be seriously prejudicial to the group's interests.

As detailed in note 1 accounting policies, the Group recognises turnover on certain bespoke vehicle export sales as long term construction contracts. In the year to 31 December 2017, turnover on such contracts amounted to £207 million (2016: £186 million).

Notes (continued)

4 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2017 £000	2016 £000
Recurring		
loss/(gain) on disposal of tangible assets	23	(8)
Operating lease charges	5,077	4,722
	<u>5,100</u>	<u>4,714</u>

	2017 £000	2016 £000
Non-recurring		
Redundancy and people related costs expensed as incurred	674	597
Professional fees – in relation to acquisition of business	-	238
	<u>674</u>	<u>835</u>

	2017 £000	2016 £000
<i>Auditor's remuneration</i>		
Audit of these financial statements	115	90

Disclosures below based on amounts receivable in respect of other services to the company and its subsidiaries

Amounts receivable by the company's auditor and its associates in respect of:

Audit of financial statements of subsidiaries of the company	43	58
Audit-related assurance services	-	18
Other tax advisory services	87	130
All other services	-	2
	<u>130</u>	<u>208</u>

Notes (continued)

5 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2017	2016
Production	2,081	1,855
Selling and administration	515	510
	<u>2,596</u>	<u>2,365</u>

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	94,184	87,254
Social security costs	9,096	9,259
Contributions to defined contribution plans	4,052	3,641
Exceptional redundancy costs	674	597
	<u>108,006</u>	<u>100,751</u>

6 Directors' remuneration

	2017 £000	2016 £000
Directors' remuneration	1,367	2,219
Company contributions to money purchase pension plans	33	32
Amounts paid to third parties in respect of directors' services	22	22
	<u>1,422</u>	<u>2,273</u>

The aggregate of remuneration and amounts receivable of the highest paid director was £793,000 (2016: £1,398,000), and company pension contributions of £Nil (2016: £Nil) were made to a money purchase scheme on his behalf.

	Number of directors	
	2017	2016
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	<u>1</u>	<u>1</u>

Notes (continued)

7 Other interest receivable and similar income

	2017 £000	2016 £000
Interest receivable	37	20
Total other interest receivable and similar income	37	20

8 Interest payable and similar expenses

	2017 £000	2016 £000
Interest payable on bank loans and overdrafts	1,111	1,189
Interest on stockholding facilities	120	25
Amortisation of bank loan facility charge	171	171
Other interest payable	787	605
Interest payable on invoice discounting	253	466
Total interest payable and similar charges	2,442	2,456

9 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2017 £000	2016 £000
<i>Current tax</i>		
UK Corporation Tax		
- Current tax on income for the period	4,982	4,772
- Adjustments in respect of prior periods	309	(1,352)
Overseas tax		
- Current tax on income for the period	1,250	1,173
- Adjustments in respect of prior periods	(905)	720
Total current tax	5,636	5,313
<i>Deferred tax (see note 21)</i>		
Origination and reversal of timing differences	(114)	488
Adjustments in respect of prior periods	(1,088)	97
Overseas deferred tax		
- current year	224	(1,674)
- adjustments in respect of prior periods	28	(256)
Derivative financial instruments	(1,778)	(1,420)
Total deferred tax	(2,728)	(2,765)
Total tax	2,908	2,548

Notes (continued)

9 Taxation (continued)

	2017			2016		
	Current tax £000	Deferred tax £000	Total tax £000	Current tax £000	Deferred tax £000	Total tax £000
Recognised in profit and loss account	5,636	(950)	4,686	5,313	(1,345)	3,968
Recognised in other comprehensive income	-	(1,778)	(1,778)	-	(1,420)	(1,420)
Total tax	5,636	(2,728)	2,908	5,313	(2,765)	2,548

Analysis of current tax recognised in profit and loss

	2017 £000	2016 £000
UK corporation tax	5,291	3,420
Foreign tax	345	1,893
Total current tax recognised in profit and loss	5,636	5,313

Reconciliation of effective tax rate

	2017 £000	2016 £000
Profit for the year	19,734	19,764
Total tax expense	4,686	3,968
Profit excluding taxation	24,420	23,732
Tax using the UK corporation tax rate of 19.25% (2016: 20.00%)	4,701	4,746
Effect of tax rates in foreign jurisdictions	111	(521)
Reduction in tax rate on deferred tax balances	350	(206)
Non-deductible expenses	149	60
Non-taxable income	(34)	(32)
Enhanced research and development tax relief relating to current year	(193)	(200)
(Over) provided in prior years	(1,656)	(413)
Non qualifying depreciation	292	242
Other	35	7
Overseas imputed interest	222	279
Deferred tax not recognised	709	6
Total tax expense included in profit or loss	4,686	3,968

A reduction in the UK Corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the group's future current tax charge accordingly. The deferred tax liability at 31 December 2017 has been calculated based on these rates.

Notes (continued)

10 Intangible assets and goodwill

Group

	Patents and trade- marks £000	New product development costs £000	Goodwill £000	Total £000
Cost				
Balance at 1 January 2017	103	41,225	35,092	76,420
Additions – internally developed net of financing and grant income received	-	5,992	-	5,992
Adjustment to opening balance b/fwd	-	88	-	88
Balance at 31 December 2017	103	47,305	35,092	82,500
Amortisation and impairment				
Balance at 1 January 2017	(57)	(15,898)	(19,492)	(35,447)
Amortisation for the year	(5)	(7,047)	(1,755)	(8,807)
Adjustment to opening balance b/fwd	-	(91)	-	(91)
Balance at 31 December 2017	(62)	(23,036)	(21,247)	(44,345)
Net book value				
At 31 December 2017	41	24,269	13,845	38,155
At 1 January 2017	46	25,327	15,600	40,973

Company

	Patents and trade- marks £000	New product development costs £000	Goodwill £000	Total £000
Cost				
Balance at 1 January 2017	103	41,226	33,209	74,538
Additions – internally developed net of financing and grant income received	-	5,992	-	5,992
Adjustment to opening balance b/fwd	-	88	-	88
Balance at 31 December 2017	103	47,306	33,209	80,618
Amortisation and impairment				
Balance at 1 January 2017	(57)	(15,900)	(16,852)	(32,809)
Amortisation for the year	(5)	(7,047)	(1,660)	(8,712)
Adjustment to opening balance b/fwd	-	(91)	-	(91)
Balance at 31 December 2017	(62)	(23,038)	(18,512)	(41,612)
Net book value				
At 31 December 2017	41	24,268	14,697	39,006
At 1 January 2017	46	25,326	16,357	41,729

Notes (continued)

11 Tangible fixed assets

<i>Group</i>	Freehold land and buildings £000	Leasehold land and buildings £000	Plant and equipment £000	Motor vehicles £000	Total £000
Cost					
Balance at 1 January 2017	4,979	4,390	39,554	783	49,706
Demo vehicles transferred from stock on 1 January 2017 at market value	-	-	-	2,158	2,158
Additions	456	467	3,855	1,827	6,605
Disposals	-	-	(201)	(937)	(1,138)
Effect of movements in foreign exchange	2	2	(65)	(16)	(77)
Balance at 31 December 2017	5,437	4,859	43,143	3,815	57,254
Depreciation and impairment					
Balance at 1 January 2017	(2,023)	(1,434)	(28,749)	(346)	(32,552)
Depreciation charge for the year	(185)	(418)	(3,669)	(800)	(5,072)
Disposals	-	-	158	228	386
Effect of movements in foreign exchange	2	-	45	(14)	33
Balance at 31 December 2017	(2,206)	(1,852)	(32,215)	(932)	(37,205)
Net book value					
At 31 December 2017	3,231	3,007	10,928	2,883	20,049
At 1 January 2017	2,956	2,956	10,805	437	17,154
<i>Company</i>	Freehold land and buildings £000	Leasehold land and buildings £000	Plant and equipment £000	Motor vehicles £000	Total £000
Cost					
Balance at 1 January 2017	4,979	4,130	34,631	26	43,766
Demo vehicles transferred from stock on 1 January 2017 at market value	-	-	-	2,158	2,158
Additions	456	454	2,266	1,496	4,672
Disposals	-	-	(126)	(906)	(1,032)
Adjustments	2	-	(2)	-	-
Balance at 31 December 2017	5,437	4,584	36,769	2,774	49,564
Depreciation and impairment					
Balance at 1 January 2017	(2,024)	(1,297)	(25,941)	(24)	(29,286)
Depreciation charge for the year	(186)	(352)	(2,863)	(654)	(4,055)
Disposals	-	-	126	198	324
Adjustments	4	-	(4)	-	-
Balance at 31 December 2017	(2,206)	(1,649)	(28,682)	(480)	(33,017)
Net book value					
At 31 December 2017	3,231	2,935	8,087	2,294	16,547
At 1 January 2017	2,955	2,833	8,690	2	14,480

Notes (continued)

11 Tangible fixed assets (continued)

Leased plant and machinery

At 31 December 2017 the net carrying amount of plant and equipment leased under a finance lease was £Nil (2016: £37,582), and the net carrying amount of motor vehicles leased under a finance lease was £99,337 (2016: £125,542).

12 Fixed asset investments

Company	Shares at cost £000	Long term loan £000	Total investment in group undertakings £000
Cost and net book value			
At 1 January 2017	193	1,742	1,935
Share capital issued by Alexander Dennis in China	22	-	22
At 31 December 2017	215	1,742	1,957

The undertakings in which the Group's and Company's interest at the year-end is more than 20% are as follows.

	Country of incorporation	Principal activity	Percentage of ordinary shares held
Alexander Dennis Inc ¹	USA	Sale of buses and related aftermarket activities	100%
Alexander Dennis (Asia Pacific) Limited ²	Hong Kong	Sale of buses and related aftermarket activities	100%
Plaxton Holdings Limited ³	UK	Holding company	100%
Plaxton Limited * ³	UK	Dormant company	100%
Alexander Dennis (New Zealand) Limited ⁴	New Zealand	Sale of buses and related aftermarket activities	100%
Alexander Dennis Australia Pty Limited ⁵	Australia	Holding company	100%
Alexander Dennis Canada ⁶	Canada	Sale of buses and related aftermarket activities	100%
Alexander Dennis (Singapore) Service Pte Ltd ⁷	Singapore	Sale of buses and related aftermarket activities	100%
Alexander Dennis (Malaysia) Sdn Bhd ⁸	Malaysia	Sale of buses and related aftermarket activities	100%
Alexander Dennis Germany GMBH ⁹	Germany	Sale of buses and related aftermarket activities	100%
Alexander Dennis Mexico S.A. de C.V. ¹⁰	Mexico	Sale of buses and related aftermarket activities	100%
Alexander Dennis (Zhuhai) Trading Co, Limited ¹¹	China	Sale of buses and related aftermarket activities	100%

* held indirectly

Registered office:

¹ 31566 Railroad Canyon Road, #342, Canyon Lake, CA 92587

² Unit A-B, 9/F, YHC Tower, 1 Sheung Yuet Road, Kowloon Bay, Hong Kong

³ Plaxton Park, Cayton Low Road, Eastfield, Scarborough, YO11 3BY

⁴ 7-2 Henry Rose Place, Albany, Northshore City, Auckland 0632

⁵ Suite 12, Level 12, 37 Bligh Street, Sydney, NSW 2000

⁶ 130 Pippin Road, Unit B, Vaughan, Ontario, L4K 4X9

⁷ 600 North Bridge Road, 23-01 Parkview Square, Singapore 188778

⁸ Suite C-5-4 Wisma Goshen Plaza Pantai Jalan Pantai Baharu 59200 Kuala Lumpur Wilayah Persekutuan

⁹ c/o Luther, Rechtsanwaltsgesellschaft mbH, Friedrichstraße 140, 10117 Berlin

¹⁰ Paseo de la Reforma 412, Piso 7, Colonia Juarez, Delegacion Cuauhtemoc, 06600, Ciudad de Mexico, Mexico

¹¹ Room 105-30538 (Centralized Office Area), No.6, Baohua Road, Hengqin New Area, Zhuhai

Notes (continued)

13 Other financial assets

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Other financial assets				
Derivative financial instruments	2,898	14,309	3,308	16,995
Derivative financial instruments – due after more than one year	1,299	4,825	1,299	5,629
	4,197	19,134	4,607	22,624

14 Stocks

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Raw materials and consumables	31,605	26,908	31,605	26,908
Work in progress	22,069	23,110	21,303	23,097
Finished goods	37,384	35,884	28,970	28,478
	91,058	85,902	81,878	78,483

15 Debtors

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Trade debtors	50,630	42,546	32,041	29,698
Amounts recoverable on contracts	45,504	40,163	4,179	225
Amounts owed by group undertakings	-	-	86,582	61,994
Other debtors	77	449	77	448
Corporation tax recoverable	-	226	-	191
Prepayments and accrued income	9,565	11,283	5,688	5,472
	105,776	94,667	128,567	98,028

Company

At 31 December 2017 an amount of £7,764,500 (2016: £4,563,000) was due after more than one year from subsidiary undertakings.

Notes (continued)

16 Cash and cash equivalents/ bank overdrafts

	2017 £000	2016 £000
Group		
Cash at bank and in hand	28,774	22,219
	<u>28,774</u>	<u>22,219</u>
	<u><u>28,774</u></u>	<u><u>22,219</u></u>
Company	£000	£000
Cash at bank and in hand	14,808	16,722
	<u>14,808</u>	<u>16,722</u>
	<u><u>14,808</u></u>	<u><u>16,722</u></u>

17 Creditors: amounts falling due within one year

	Group 2017 £000	2016 £000	Company 2017 £000	2016 £000
Bank loans and overdrafts (see note 19)	34,929	-	34,929	-
Trade creditors	95,257	77,861	92,260	74,898
Payments received on account for contract work	49,123	52,050	1,445	583
Amounts owed to group undertakings	-	-	14,044	7,508
Taxation and social security	8,098	13,936	8,853	15,326
Other creditors	2,899	3,586	2,882	3,948
Accruals and deferred income	16,979	23,921	15,671	22,644
UK and overseas corporation tax	1,436	-	1,621	-
Obligations under finance leases (see note 19)	56	85	-	20
Other financial liabilities (see note 20)	3,168	4,053	3,479	4,089
	<u>211,945</u>	<u>175,492</u>	<u>175,184</u>	<u>129,016</u>
	<u><u>211,945</u></u>	<u><u>175,492</u></u>	<u><u>175,184</u></u>	<u><u>129,016</u></u>

18 Creditors: amounts falling after more than one year

	Group 2017 £000	2016 £000	Company 2017 £000	2016 £000
Bank loans and overdrafts (see note 19)	-	26,758	-	26,758
Amounts owed to group undertakings	-	-	49,854	46,707
Obligations under finance leases (see note 19)	81	68	-	-
Other financial liabilities (see note 20)	1,939	3,755	1,965	3,768
	<u>2,020</u>	<u>30,581</u>	<u>51,819</u>	<u>77,233</u>
	<u><u>2,020</u></u>	<u><u>30,581</u></u>	<u><u>51,819</u></u>	<u><u>77,233</u></u>

Notes (continued)

19 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's and parent Company's interest-bearing loans and borrowings, which are measured at amortised cost.

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Creditors falling due more than one year				
Secured bank revolving credit facility	-	27,000	-	27,000
Unamortised bank facility costs	-	(242)	-	(242)
Finance lease liabilities	81	68	-	-
	81	26,826	-	26,758
Creditors falling due within less than one year				
Secured bank revolving credit facility	35,000	-	35,000	-
Unamortised bank facility costs	(71)	-	(71)	-
Finance lease liabilities	56	85	-	20
	34,985	85	34,929	20
Analysis of debt				
	Group	2016	Company	2016
	2017	£000	2017	£000
	£000		£000	
Debt can be analysed as falling due:				
In less than one year	34,985	85	34,929	20
Between one and two years	45	26,796	-	26,758
Between two and five years	36	30	-	-
	35,066	26,911	34,929	26,778

The UK bank facilities are secured by means of a floating charge over the Group's assets and a standard security and legal charge on the company's freehold properties.

As set out in the strategic report, the facilities were extended in April 2018 through to December 2019. Interest is charged based on LIBOR plus a ratchet.

Notes (continued)

19 Interest-bearing loans and borrowing (continued)

Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Minimum lease payments 2017 £000	Minimum lease payments 2016 £000
Less than one year	56	85
Between one and five years	81	68
	<u>137</u>	<u>153</u>
	<u><u>137</u></u>	<u><u>153</u></u>
Company	Minimum lease payments 2017 £000	Minimum lease payments 2016 £000
Less than one year	-	20
Between one and five years	-	-
	<u>-</u>	<u>20</u>
	<u><u>-</u></u>	<u><u>20</u></u>

Additional borrowing facilities

At 31 December, the Group had undrawn committed borrowing facilities, in respect of which all conditions precedent had been met, as follows:

	Group 2017 £000	2016 £000	Company 2017 £000	2016 £000
Expiring less than one year	48,665	-	44,422	-
Expiring between one and two years	-	57,124	-	52,528
	<u>48,665</u>	<u>57,124</u>	<u>44,422</u>	<u>52,528</u>

The group has agreements in place with its bankers whereby the trade debts of approved customers would be assigned to the bank and discounted in the ordinary course of business. The value of the associated debtors are received in full subject to a discounting charge which is included in interest costs in the profit and loss account. The bank has no recourse to the group in the event of a customer payment default.

Notes (continued)

20 Other financial liabilities

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Amounts falling due after more than one year				
Derivative financial instruments	1,939	3,755	1,965	3,768
	=====	=====	=====	=====
Amounts falling due within one year				
Derivative financial instruments	3,168	4,053	3,479	4,089
	=====	=====	=====	=====

21 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities	
	2017	2016	2017	2016
	£000	£000	£000	£000
Accelerated capital allowances – research and development	-	-	(1,679)	(3,386)
– other	-	504	-	-
Unused tax losses	1,728	2,222	-	-
Other	-	-	(362)	(491)
Derivative financial instruments	189	1,213	(7)	(2,632)
	=====	=====	=====	=====
Tax assets / (liabilities)	1,917	3,939	(2,048)	(6,509)
Net of tax liabilities/(assets)	(1,917)	(3,939)	1,917	3,939
	=====	=====	=====	=====
Net tax liabilities	-	-	(131)	(2,570)
	=====	=====	=====	=====
Company	Assets	Assets	Liabilities	Liabilities
	2017	2016	2017	2017
	£000	£000	£000	£000
Accelerated capital allowances – research and development	519	-	(2,199)	(3,386)
– other	-	504	-	-
Other	-	-	(255)	(257)
Derivative financial instruments	159	-	-	(2,622)
	=====	=====	=====	=====
Tax assets / (liabilities)	678	504	(2,454)	(6,265)
Net of tax liabilities/(assets)	(678)	(504)	678	504
	=====	=====	=====	=====
Net tax liabilities	-	-	(1,776)	(5,761)
	=====	=====	=====	=====

Notes (continued)

22 Warranty provision

Group	Product warranty £000
Balance at 1 January 2017	7,399
Provisions made during the year	13,158
Provisions used during the year	(14,310)
Balance at 31 December 2017	6,247
Company	Product warranty £000
Balance at 1 January 2017	4,092
Provisions made during the year	6,893
Provisions used during the year	(6,885)
Balance at 31 December 2017	4,100

23 Share based payments

One share option scheme was in operation during the year. The options are exercisable on or after the third anniversary of the date of the grant, subject to continued employment. The options are treated as equity settled, and they have fully vested. The options were not exercised and therefore lapsed during the year.

The terms and conditions of the grants are as follows:

Grant date	Method of settlement accounting	Number of instruments	Exercise price per ordinary share	Contractual life of options
Equity settled award granted in April 2007	Equity	939,560	£6.722	10 years

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2017	Number of options 2017	Weighted average exercise price 2016	Number of options 2016
Outstanding at the beginning of the year	£6.722	939,560	£6.722	939,560
Exercised during the year	-	-	-	-
Lapsed during the year	-	(939,560)	-	-
Outstanding at the end of the year	-	-	£6.722	939,560
Exercisable at the end of the year	-	-	-	939,560

This information is applicable to both the Group and the Company, with the only share option schemes in operation by the Group during the year being by the Company. During 2017 the shareholders agreed that 939,560 new share options would be issued and subsequently in January 2018 these options were granted.

Additionally 7,500 new 'C' shares were acquired for market value by certain directors and members of the wider management team during 2017 (see note 24).

Notes (continued)

23 Share based payments (continued)

As the new share options and 'C' shares were issued at market value, having taken appropriate advice, the directors are of the opinion that any share based payment charge in 2017 was £Nil (2016: £Nil).

24 Capital and reserves

Share capital

	2017 £000	2016 £000
<i>Allotted, called up and fully paid</i>		
16,990,535 shares of 1p each	170	170
<i>Authorised</i>		
10,000 Ordinary 'C' shares of 0.01p each	-	-
<i>Allotted, called up and fully paid</i>		
7,500 Ordinary 'C' shares of 0.01p each	-	-

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

On 26th October 2017, the company authorised the creation of a new share category, C shares. 10,000 C shares were authorised, and 7,500 were issued and fully paid at the year end. These shares carry no right of vote but are entitled to dividend. In addition the shares are entitled to capital subject to the achievement of a hurdle value.

Other comprehensive income

2017

Group

	Cash flow hedging reserve £000	Profit and loss account £000	Total other comprehensive income £000
<i>Other comprehensive income</i>			
Foreign exchange differences on translation of subsidiary undertakings	-	1,697	1,697
Effective portion of changes in fair value of cash flow hedges	(768)	-	(768)
Net change in fair value of cash flow hedges recycled to profit or loss	(11,958)	-	(11,958)
Net change in fair value of cash flow hedges recycled to stock	1,176	-	1,176
Taxation on other comprehensive income	1,778	-	1,778
<i>Total other comprehensive income</i>	<i>(9,772)</i>	<i>1,697</i>	<i>(8,075)</i>

2016

Group

	Cash flow hedging reserve £000	Profit and loss account £000	Total other comprehensive income £000
<i>Other comprehensive income</i>			
Foreign exchange differences on translation of subsidiary undertakings	-	(8,658)	(8,658)
Effective portion of changes in fair value of cash flow hedges	(62)	-	(62)
Net change in fair value of cash flow hedges recycled to profit or loss	(5,116)	-	(5,116)
Net change in fair value of cash flow hedges recycled to stock	94	-	94
Taxation on other comprehensive income	1,420	-	1,420
<i>Total other comprehensive income</i>	<i>(3,664)</i>	<i>(8,658)</i>	<i>(12,322)</i>

Notes (continued)

24 Capital and reserves (continued)

Other comprehensive income

2017

Company	Cash flow hedging reserve £000	Profit and loss account £000	Total other comprehensive income £000
<i>Other comprehensive income</i>			
Foreign exchange differences on translation of subsidiary undertakings	-	(413)	(413)
Effective portion of changes in fair value of cash flow hedges	(1,481)	-	(1,481)
Net change in fair value of cash flow hedges recycled to profit or loss	(14,612)	-	(14,612)
Net change in fair value of cash flow hedges recycled to stock	1,176	-	1,176
Income tax on other comprehensive income	2,967	-	2,967
<i>Total other comprehensive income</i>	(11,950)	(413)	(12,363)

2016

Company	Cash flow hedging reserve £000	Profit and loss account £000	Total other comprehensive income £000
<i>Other comprehensive income</i>			
Foreign exchange differences on translation of subsidiary undertakings	-	696	696
Effective portion of changes in fair value of cash flow hedges	3,471	-	3,471
Net change in fair value of cash flow hedges recycled to profit or loss	(5,531)	-	(5,531)
Net change in fair value of cash flow hedges recycled to stock	94	-	94
Income tax on other comprehensive income	298	-	298
<i>Total other comprehensive income</i>	(1,668)	696	(972)

Reserves

Share premium represents amounts received during the sale of share capital over and above the par value of the shares.

The capital redemption reserve represents amounts retained as fixed capital following redemptions of share capital under company legislation.

The cash flow hedging reserve represents the fair value movement in derivative financial instruments to which hedge accounting after tax has been applied.

The profit and loss account reserve presents accumulated comprehensive income for the year and prior periods less dividends paid.

Notes (continued)

25 Financial instruments

(a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2017 £000	2016 £000
Assets measured at fair value through profit or loss	4,197	19,134
Assets measured at amortised cost	105,776	94,667
Liabilities measured at fair value through profit or loss	(5,107)	(7,808)
Liabilities measured at amortised cost	(208,858)	(198,265)

(b) Financial instruments measured at fair value

Derivative financial instruments

The Group enters into forward foreign exchange contracts to mitigate the exchange rate risk for certain foreign currency transactions. The forward currency contracts are measured at fair value, which is based on the mid-market price at the close of business of the year end date.

(c) Hedge accounting

Cash flow hedging

The Group uses cash flow hedging in order to mitigate the exchange rate risk for certain foreign currency transactions. These include both sale transactions and the purchasing of stock and related costs. The fair value of cash flow hedging instruments at 31 December 2017 was £910,000 net financial Liabilities (2016: £11,326,000 net financial asset). The amount of change in fair value of cash flow hedging instruments recognised by the Group in other comprehensive income for the period was £1,011,000 decrease (2016: £62,000 decrease).

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur as required by FRS 102.29(a) for the cash flow hedge accounting models

2017

	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000	5 years or more £000
Forward exchange contracts:						
Assets	4,197	(48,646)	(41,476)	(5,232)	(1,938)	-
Liabilities	(5,107)	(46,390)	(38,079)	(8,311)	-	-
	(910)	(95,036)	(79,555)	(13,543)	(1,938)	-

2016

	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000	5 years or more £000
Forward exchange contracts:						
Assets	19,134	(99,482)	(72,544)	(25,935)	(1,003)	-
Liabilities	(7,808)	37,604	23,865	(1,278)	15,017	-
	11,326	(61,878)	(48,679)	(27,213)	14,014	-

Notes (continued)

25 Financial instruments (continued)

(c) Hedge accounting (continued)

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to affect profit or loss:

2017

	Carrying amount £000	Expected cash flows £000	Recognised in current year £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000
Forward exchange contracts:						
Assets	4,197	(48,646)	(15,033)	(26,596)	(7,312)	294
Liabilities	(5,107)	(46,390)	(14,006)	(31,259)	(1,125)	-
	<u>(910)</u>	<u>(95,036)</u>	<u>(29,039)</u>	<u>(57,855)</u>	<u>(8,437)</u>	<u>294</u>

2016

	Carrying Amount £000	Expected cash flows £000	Recognised in current year £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000
Forward exchange contracts:						
Assets	19,134	(99,482)	(17,791)	(65,205)	(18,158)	1,672
Liabilities	(7,808)	37,604	(10,278)	36,710	(4,559)	15,729
	<u>11,326</u>	<u>(61,878)</u>	<u>(28,069)</u>	<u>(28,495)</u>	<u>(22,717)</u>	<u>17,401</u>

(d) Fair values

The amounts for all financial assets and financial liabilities carried at fair value are as follows:

	Fair value 2017 £000	Fair value 2016 £000
Derivative financial instrument	<u>(910)</u>	<u>11,326</u>

26 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group 2017 £000	2016 £000	Company 2017 £000	2016 £000
Less than one year	4,603	4,695	3,355	3,564
Between one and five years	9,149	8,600	6,804	6,345
More than five years	4,927	5,299	4,900	4,957
	<u>18,679</u>	<u>18,594</u>	<u>15,059</u>	<u>14,866</u>

During the year £5,077,000 was recognised as an expense in the profit and loss account in respect of operating leases (2016: £4,722,000).

Notes (continued)

27 Commitments

Capital commitments

Contractual commitments to purchase tangible fixed assets at the year-end were £ 162,000 (2016: £264,000). Authorised but not contractual commitments to purchase tangible fixed assets at the year-end were £ 351,000 (2016: £103,000).

28 Contingencies

There are contingent liabilities in relation to indemnities provided to Bank of Scotland and HSBC to the value of £7,936,671 (2016: £12,187,344) for performance bonds and advance payment guarantees. Included in this amount are £4 million regarding an advance payment guarantee and £2.7 million regarding performance bonds. These amounts represent 20% of any potential liability arising with the remaining 80% underwritten by the UK government export credit agency. There are also contingent liabilities in relation to indemnities provided to customers to the value of £11,028,859 (2016: £8,499,236) for guarantees of performance obligations. All relate to contracts entered into in the ordinary course of business.

29 Related parties

Identity of related parties with which the Group has transacted

Related parties comprise wholly owned Group companies. Transactions with related parties were carried out at arms-length agreed terms, conditions and prices. The Group and company have taken advantage of the exemption within FRS102 Section 33 paragraph 33.1A from the requirement to disclose transactions with other wholly owned companies in the same group.

Sir Brian Souter and Ann Gloag collectively hold, via companies that they control, 55.1% (2016: 55.1%) of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (of which Sir Ewan Brown (Non-Executive Director of Stagecoach) is a director of its holding company) controls a further 33.2% of the shares and voting rights of the company. However, by virtue of the shareholders agreement, the Directors are of the view that there is no ultimate controlling party.

They are also Chairman (Sir Brian Souter) and Non-Executive Directors in Stagecoach Group which is a customer of Alexander Dennis Limited. Sir Brian Souter, Ann Gloag and Sir Ewan Brown are not directors of (nor do they have any involvement in the management of) Alexander Dennis Limited. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between Alexander Dennis Limited and Stagecoach Group.

In addition to Stagecoach Group, Sir Brian Souter also has interests in the following companies which the Group has transacted with during the period:

- Howick & Eastern Buses Ltd
- Reesby Rotorua Ltd
- Fullers Group Ltd
- Mana Coach Services Ltd
- Souter Holdings Poland Sp.oz.o

For the year ended 31 December 2017, the Group sold £67.6 million (2016: £118.1 million) of vehicles and £7 million (2016: £5.9 million) of spare parts and other services to the above named Companies, including Stagecoach Group.

As at 31 December 2017, the Group had £1.4 million (2016: £2.2 million) of outstanding receivables, along with outstanding orders of £45.6 million (2016: £63.2 million).

Transactions with key management personnel

All directors and certain senior employees who have authority and responsibility for planning, directing and controlling the activities of the Group are considered to be key management personnel. Total remuneration in respect of these individuals is £3,076,000 (2016: £4,461,000).

Notes (continued)

30 Ultimate controlling party

The shareholders of the group are the controlling parties but by virtue of the shareholders agreement, the directors, are of the view that there is no overall controlling party. The holder of the majority of the ordinary shares is HGT Investments Limited.

The largest and smallest group in which the results of the Company and its group are consolidated is that headed by Alexander Dennis Limited.

31 Analysis of changes in net debt

Group	As at 31 December 2016 £000	Cash flow £000	Non-cash movements £000	As at 31 December 2017 £000
Cash at bank and in hand	22,219	6,555	-	28,774
Short term cash deposits	-	-	-	-
Total cash and cash equivalents	22,219	6,555	-	28,774
Debt due within one year				
Bank facility	-	(8,000)	(27,000)	(35,000)
Finances leases – due within one year	(85)	92	(63)	(56)
	(85)	(7,908)	(27,063)	(35,056)
Debt due after 1 year				
Bank facility – due after one year	(27,000)	-	27,000	-
Balance of related facility charge	242	-	(171)	71
Finance leases due after one year	(67)	-	(14)	(81)
	(26,825)	-	26,815	(10)
Total gross debt	(26,910)	(7,908)	(248)	(35,066)
Total net debt	(4,691)	(1,353)	(248)	(6,292)

Notes (continued)

32 Notes to the cash flow statement

	2017 £000	2017 £000	2016 £000	2016 £000
Cash flows from operating activities				
Profit for the year		19,734		19,764
<i>Adjustments for:</i>				
Amortisation of intangible assets	8,807		8,275	
Depreciation of tangible assets	5,072		4,339	
Amortisation of government grants	(304)		(473)	
(Gain) on disposal of assets	(279)			
		13,296		12,141
Interest payable and similar charges		2,442		2,456
Other interest receivable and similar income		(37)		(20)
Non-recurring operational costs		674		835
Taxation		4,686		3,968
EBITDA and non-recurring items		40,795		39,144
Other non-cash operating items				
(Gain)/loss on sale of tangible fixed assets		-		(8)
Foreign exchange movement		1,744		(8,837)
Non-recurring non cash operating items		-		(150)
		42,539		30,149
Working capital cash items:				
Decrease/(Increase) in trade and other debtors		(11,055)		35,134
(Increase) in stocks		(7,314)		(6,705)
(Decrease)/Increase in trade and other creditors		2,263		(21,589)
Increase/(Decrease) in provisions and employee benefits		(1,152)		3,296
		25,281		40,285
Other cash operating items				
Interest paid		(2,675)		(2,594)
Interest received		37		20
Dividends paid		(8,000)		(8,000)
Tax paid		(3,922)		(5,814)
Non-recurring cash operating items		(674)		(685)
Net cash from operating activities		10,047		23,212